July 3, 2019

Dear Clients and Investors,

Happy summer and 4th of July! I hope that everyone has an opportunity to enjoy this holiday week now that summer has finally arrived here in New England. As anyone who reads my quarterly letters already knows, I make a point of keeping this letter focused on the economy and the markets. Before I touch on these usual subjects, let me digress for a bit…

Today is July 3rd which happens to be my 60th birthday. I'm not really big on birthdays, especially my own and I have to say that 60 sounds really old, thankfully I still think I'm 30 and I hope this continues for a good while longer! My daughter would say, "don't jinx it" but today will also mark a new all-time high on the S&P 500 – nice birthday present, especially when you are in the business of managing money. This week also marks a new chapter for Hughes Investment Advisory Services LLC as I have entered my new business partnership with Bay Colony Advisors in Concord Mass. After running my own business for 26 years, I am looking forward to this new chapter and the opportunities that will present themselves as I integrate and work with my new partners at Bay Colony Advisors. With my long history as an investor and sitting here today on the day before Independence Day, I can't help but marvel at our wonderful country and the wealth creation and opportunities that I have witnessed in my 36 years in the investment business. I could name so many examples, Home Depot, Microsoft, Apple etc. that I have watched go from small companies to massive powerhouses of business and commerce in the greatest nation on earth – it truly is unique and amazing to have been a tiny part of this process. From my perspective, this innovation and wealth creation seems to be alive and well and I am still excited, every day, to get to work investing personal and client money in the greatest markets the world has ever seen. Is it easy or a straight line higher each day, week month or year, clearly not, and that in itself has its own lessons to be learned from this long journey higher over these many decades. On to today's markets:

The S&P 500 gained 6.9% in June, it's best June since 1955, and was up 17% during the first 6 months of 2019, it's best first half since 1997 - while the DJ Industrial Average is up 14% so far in 2019. What's ahead for stocks after such a great first half? The first half of 2019 was terrific for financial markets, regardless of whether you were a stock, bond, gold or bitcoin investor – but that, however, is only a snapshot of six months without taking into account what preceded them and what may follow. That both equity and bond investors had a good first six months largely reflects a major pivot by the Federal Reserve from its stance last year, when it indicated that it would raise short term rates multiple times in 2019. In early January, Fed Chair Jerome Powell changed tacks and said that the central bank would be "patient" in boosting rates and then, in late spring, indicated the next move is likely to be a cut! I'm happy to say that my stance, throughout these shifts, has remained steady despite all of the media attention and hype surrounding both political and economic events over the last six months.

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For now, I'm sticking with my prediction of 1 rate increase for 2019 which is currently contrary to popular opinion on Wall Street. Why am I still predicting an increase while most are expecting a cut? Mostly because I am still expecting a positive outcome from the US/China trade talks. A positive outcome to these talks will, no doubt, produce a positive response in the business community, including on Wall Street, resulting in another change of heart on the interest rate front. Generally I believe that the global slowdown will prove to be temporary as supply chains are moved to the rest of Southeast Asia and away from China – which is also the reason that I remain positive on the Asia region overall as business will not disappear but just shift to new areas in the region. If I am wrong and the trade talks take longer, then the Fed probably will cut rates one or two times, the good news being that either outcome is supportive of a positive backdrop for company earnings and therefore equities. Speaking of corporate earnings, I am expecting a neutral to lower trend in S&P 500 earnings in the second half of the year, but this does not equate to an earnings recession but more of a pause before the economy regains momentum sometime in the second half of the year.

The benchmark 10-year Treasury note's yield already is below 2% which has produced a massive rally in bonds, utilities, REITS and other interest rate sensitive investments but if my prediction of stronger growth in Q's 3 and 4 prove prescient these markets will reverse which is why I have recently taken some profits in these areas expecting a better re-entry point in the period ahead.

On the worldwide front, it looks like Christine Lagarde will be the next leader of the ECB which leads one to believe that European monetary policy will continue to be easy in order to support their banks, economy and markets – in other words, more of the same in Europe… the trillions of dollars of negative yielding government bonds, mostly in Europe but also Japan, are an anomaly and how this situation plays out in the years ahead could be critical to our future investment strategy. In all the years that I have been investing a similar negative interest rate situation has never existed and I must say that the fact that investors pay governments to hold their cash is clearly a distortion and one that is not good overall – I have been and will spend significant time on understanding this situation.

Interest rates, Inflation, employment, corporate earnings, the dollar and energy prices all remain supportive of a moderately growing economy and what I often refer to as a "Goldilocks Economy" so let's hope that the Fed and the politicians are able to keep this, longest ever running expansion, on track for the foreseeable future.

At this time, I continue to favor large-cap, dividend paying, international corporations with strong balance sheets and Asian markets in general. Emerging markets overall appear undervalued and represent value at this time. Risk/reward continues to favor equities over fixed income. Select MLP's and specialized bond funds continue to look good as income producers. T-Bills are attractive for short-term assets.

Sincerely,
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